Why the dominance of economics will survive the crash, for now

Mark Goodwin

In November 2008, leading scholars at the London School of Economics were posed a question which they, as a profession, are still struggling to answer five years later. The interlocutor was Queen Elizabeth II, making only the second visit by a reigning monarch to the university since its foundation. The topic was the credit crunch and financial crisis. Her Majesty's question was how it was possible that nobody, including the august economic experts assembled, had seen the crisis coming [1]. The Queen was not alone in wondering whether the failure to predict the defining economic episode of our generation reveals more fundamental problems within the discipline. Dissenting voices in the academy and beyond have begun to challenge some of the discipline's received wisdoms in the light of the crash, calling for greater pluralism and reflexivity. The status of economics both within academia as the most rigorous and scientific of the social or 'soft' sciences; and as a guide to action in the field of public policy is being questioned to a degree not experienced for some decades.

Five years on from the Queen's question, the Sveriges Riksbank Prize in Economic Sciences (better known as the Nobel Prize for Economics, despite its sponsorship by the Swedish central bank), was awarded to Professor Eugene Fama. Both Fama and his employer, the University of Chicago, are strongly associated with economic positions that not only failed to predict, or to adequately explain, the financial crash and its consequences, but were arguably implicated in producing it. Economics, in common with broader financial and political systems, seemed to have absorbed the impact of the crisis and reverted to business as usual.

Yet there may still be a threat to the continued dominance of economics. The immanent critique of economics from within the academy has not been silenced and may still effect some change, although it must surmount major institutional obstacles to do so. But running parallel to calls for an overhaul of academic economics' curricula and research priorities, there may be an even stronger challenge to the dominance of economics as a source of policy advice. While most attention has been focused on demands for an economic perestroika in academia that would open up the mainstream to new approaches, it is policy-makers' increasing interest in developments in behavioural and neurological science that may present the true existential threat to the dominance of economics.

In 1989, the academic field of international relations suffered a similar crisis as the one that now confronts economics. Rational and objective strategic studies often based on applying economic principles, had dominated the field and brought international relations scholars to a prominent position in defence and security policy. Yet for all the elegance and complexity of the models produced by these scholars, they were unable to predict or explain the fall of the Soviet Union and the end of the Cold War. The reaction to this failure within the discipline was significant. With many of its most basic assumptions being tested and found wanting in the light of the changing world situation, a more critical, self-reflective approach to security emerged, prepared to challenge the boundaries of the field and re-imagine the concept of security and the state itself. Yet despite the broadening and deepening of the understanding of security in academia, a relatively narrow understanding of security continued to dominate in the world of policy. Security scholars working in non-traditional paradigms became ever more detached from the practice of security.

The call for economics to undergo a similar bout of self-examination has been increasing in volume in recent years, as demonstrated by the protests of Manchester students at the narrowness of university economics curricula [2], and the formation of groups such as the Cambridge Society for Economic Pluralism [3] and Sheffield's Political Economy Research Institute (SPERI) [4]. Yet the consequences of such introspection may well repeat the experience of those who undertook the same task in the field of international security. Undoubtedly, the intellectual case for incorporating insights drawn from other social sciences such as psychology, history and sociology is strong. The LSE economists' response to the Queen's question is essentially a restatement of the limits of economics, and the need for a fuller account of human psychology and motivation than the stylised heuristics provided in economic models can generate [5]. The intellectual integrity of the subject would seem to be clearly enhanced by greater openness to the perspectives of other social sciences and an acceptance that economics cannot deliver all the answers. Yet while a more plural and modest outlook may enhance economics' intellectual integrity, this does not necessarily translate into greater practical relevance in the policy world, as the example of security studies demonstrates. The result may in fact be the opposite, with the emergence of a strong heterodox stream in academic economics but relatively little challenge to the established tradition in the field of policy advice.

Understanding this apparent paradox requires understanding the function of economic analysis in the policy process. The reason that economics has occupied a privileged position in policy advice is because it supplies a product that consumers are demanding. Economics promises to resolve value questions laden with emotion and conflict into questions capable of resolution by neutral, technical means. It promises to turn complex issues into simpler ones by assigning symbols that can be measured against one another in a common currency. Economics offers to policy-makers the imaginary resolution of social conflict and contradiction. In short, it promises to make policy-makers' lives simpler.

To take one example, in deciding whether to proceed with a high speed rail project, policy-makers want to know how much contribution they will get to GDP in exchange for how much outlay in capital spending now. They are likely to be less interested in hearing about the intractability of collective action problems, the impact of social norms and peer effects, the cognitive biases against appropriate discounting of the future, the historical comparison with the Beeching reforms or the philosophical quandaries engendered by the requirements of intergenerational justice. These only make the problem more complex, even if they may provide a fuller understanding of the issue in all relevant dimensions. Economics provides policy-makers with a starting point capable of guiding action that seems to circumvent difficult questions of value and principle in favour of a consideration of a universally agreed good of obtaining value for money. To criticise economic analyses of policy problems as incomplete because they ignore relevant ethical or sociological considerations is to miss the point. Policy-makers are always required to operate with incomplete information. Canvassing the full spectrum of social science perspectives on any policy question is likely to produce findings too tentative and qualified to serve as a basis for action or the selection of a particular policy option. In this case, more information means more inertia. The powerful appeal of economics is that it is the only social science discipline that promises to make decision making easier for policy-makers and problems less complex. This is an important part of the reason why mainstream approaches to economics have survived the Asian crisis, why they survived the tech bubble and why they will survive the crash as well. The call for greater pluralism may be intellectually correct, but it risks consigning any who follow that advice to irrelevance in policy terms.

Economic overconfidence is not a flaw from the perspective of its dominance in public policy, it is its USP. The more modest, self-critical and less confident an academic discipline is, the more it takes seriously the possibility of error, uncertainty and the contestability of its most basic assumptions, the less likely it is to be sought out to support policy-making. Hence why it is economics, and not psychology, anthropology, sociology or above all philosophy to which policy-makers will often turn. Those social sciences that are making inroads are precisely those that extend the possibility of certainty. The dominance of economics as a source of policy advice will be overthrown when behavioural science or neuroscience reaches the stage of development where it can plausibly claim to make policy-makers lives easier and less complex. Policy-makers current enthusiasm for behavioural psychology ('nudging') and randomised controlled trials modelled on epidemiology rather than economics demonstrates the truth of this proposition. The future of policy advice may be not economic, but rather based on behavioural genetics, as endorsed in the field of education by close advisers to the Secretary of State [6], or endocrinological studies such as those conducted on the effects of hormones on City traders' behaviour [7]. Already, evolutionary biologists, psychologists and neuroscientists have discovered systematic biases in human rationality and irrationality that challenge the fundamental assumptions and models on which economics has been built. The more we know about these things, the less useful are economists' simplifying assumptions about human motivation and decision making. These approaches are marginal to policy at present, yet they may represent a real challenge to the position of economics as they develop. There is an emerging demand from policy-makers for a replacement for economics that offers the same unchallengeable basis in hard science combined with the capacity for reducing the range of factors that must be considered when formulating policy. And as any good economist will know, where there is rising demand, supply ought to follow.

References

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About the Author

Mark Goodwin is the Mellon Postdoctoral Fellow in Public Policy in the Department of Politics and International Studies at the University of Cambridge. His current research focuses on the legislative and policy role of the UK Parliament, public policy in the field of human biotechnology, and the use of scientific and research evidence in the scrutiny of public policy. Mark studied at the University of Manchester and University of Birmingham and joined Cambridge from De Montfort University. He is currently involved in teaching the first cohort on the new Cambridge MPhil in Public Policy (http://www.polis.cam.ac.uk/Graduates/ProsMPhil/MPhilPP).